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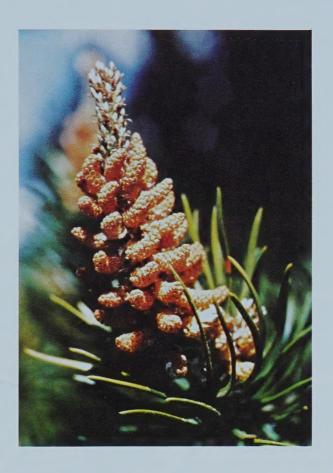
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LalcoAnnual Report 1979

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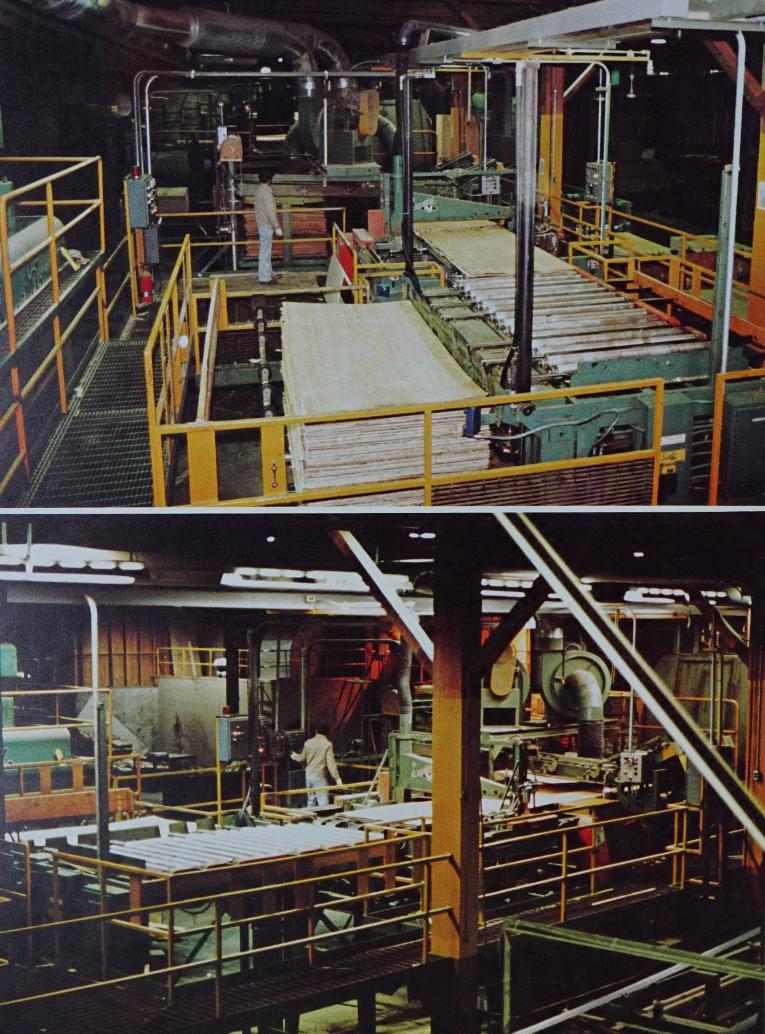
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FIVE YEAR FINANCIAL HIGHLIGHTS

For the Year (in \$ 000)	1979	1978	1977	1976	1975
Sales	\$81,676	\$67,848	\$35,219	\$18,531	\$14,064
Earnings (Loss)	6,754	5,408	2,515	1,535	371
Earnings as % of Sales	8.3%	7.5%	7.1%	8.3%	2.6%
Depreciation & Amortization	3,705	3,032	1,758	752	586
Cash Flow	11,225	9,679	4,787	2,637	988
Capital Expenditures	5,626	4,079	4,081	2,080	409
Dividends Paid	509	402	252	277	101
Per Share Amounts*					
Earnings (Loss)	\$ 3.27	\$ 2.69	\$ 1.25	\$.76	\$.18
Cash Flow	5.43	4.81	2.38	1.31	.50.
Dividends Paid	.20	.20	.121/2	.13¾	.05
Shareholders' Equity	9.51	6.43	3.94	2.81	2.18
Year End Position (in \$ 000)					
Working Capital	\$ 6,184	\$ 3,993	\$ 738	\$ 635	\$ 611
Long-Term Debt Including	0.500		44.057	0.40	004
Current Installments	6,593	9,907	11,957	248	964
Shareholders' Equity	19,657	12,931	7,925	5,662	4,404
Common Shares Outstanding (in 000's shares)	2,072	1,006	1,006	1,006	1,006



1979 IN REVIEW

Record levels in sales and earnings were reached in 1979. These results were attained through better business conditions and continued internal improvements. The company sales and earnings reached new highs, rising twenty per cent and twenty-four per cent respectively.

Consolidated net earnings for the year ended November 30, 1979 were \$6,754,186 on sales of \$81,676,137 compared to the previous year's earnings of \$5,408,501 on sales of \$67,848,102. Earnings per share reflecting the two for one split were \$3.27 compared to \$2.69 in 1978. While the achievement largely represents the company's response to the marketplace, the performance also expresses the efforts and support of all employees within the divisions in their dedication to produce high quality products.

Lumber shipments for 1979 totalled 231.1 million board feet. The plywood market performed well during the first three quarters but faltered in the last quarter. The total volume of plywood shipped was 645.8 million square feet

DIRECTORS' REPORT TO THE SHAREHOLDERS

(1/16" basis). The Lumber and Plywood Sales Agreement with Canadian Forest Products Ltd. has served us well and will be continued for 1980.

The improved outlook of the pulp industry this past year has materially assisted our opportunities to increase sales of pulp chips to the pulpmill in our area, to pulpmills in the coastal region, and to the export market. It is anticipated that this continued bouyancy coupled to the limited supply of available wood fibre will be significant this coming year. In order to capitalize on this fibre supply situation, improved chip reload installations at all divisions are presently

completed or near completion. This will maximize the volume that can be shipped by all modes of transportation.

The total wage, salary and benefit costs paid to our 976 employees amounted to \$22.9 million as compared to \$18.5 million in 1978. Negotiations for a revised labour contract were completed without a major shutdown in the industry. Safety performance continued to improve over the preceeding year with the overall frequency and severity of time loss accidents being further reduced. A safe working environment is of utmost concern to management. The improvement in safety that has been experienced results from designating safety as a top priority item and from widespread employee support.

Woodlands harvested a combined total of 468,090 cunits of timber during the year. In the normal course of events mother nature restocks the harvested woodlands. However, in those areas where natural regeneration is insufficient, seedlings are planted to



ensure that the lands in the future will be productive. This past year a total of 1.3 million seedlings were planted. A program of intensive forest management has been undertaken and will be expanded. By so doing, existing yields from a given acreage can be measurably increased. A factor of concern is the impact of the stumpage appraisal system which only offers delayed relief on a falling market and less than adequate cost allowances. In 1979 the stumpage payment to the Crown of \$11.8 million exceeded the company's net earnings of \$6.7 million, whereas in 1978 the stumpage payment of \$4.4 million was less than the net earnings of \$5.4 million.

It was with reluctance that the decision to permanently close the Nicola Division Plywood lay-up operation was made. The decision, following a review with the Provincial Government, was based on the fact that a sufficient supply of peelable wood was not available to warrant the large capital expenditure required to modernize the existing plant into a viable operation. We acknowledge the cooperation extended by the I.W.A. and

Canada Manpower for their endeavours in the joint program to assist in obtaining alternate employment for those laid-off employees.

In September the company acquired 50% interest in Gilbert Smith Forest Products Ltd. A portion of the purchase price involved the issuance of Treasury Shares. Gilbert Smith Forest Products Ltd. is a successful sawmill and pole manufacturing plant specializing in the manufacture of quality Western Red Cedar products. We welcome this opportunity to be associated as a shareholder of Gilbert Smith Forest Products Ltd.

FINANCIAL

An extensive capital expenditure program was carried out in 1979 with a total of \$5.6 million spent for plant, equipment and forest access roads. The proceeds from the disposal of fixed assets was \$317,000. The major expenditures were for a continuous lay-up line at a cost of \$2.2 million at Heffley Division's plywood plant and a new carriage and bandmill at a cost of \$700,000 at Nicola Division. These and other capital expenditures made during the year were directed to improvements in productivity through modernizing plant and equipment. The decision of the Directors in previous years has

been to direct funds towards improving manufacturing facilities, efficiently extracting the timber from the woodlands through a well planned system of access roads and the reduction of the overall debt structure. The results of this decision have to date enabled the company to attain its present growth. The continuation of this policy will place the company in a sound position during dips in the business cycle and enable the company to capitalize on its resources during periods of improved business activity. A total of \$16.6 million has been spent in the capital expenditure program over the past five years.

The long term debt was substantially reduced by payments totalling \$2,404,000, just slightly lower than the previous year's payments of \$2,510,000. The working capital at year end increased to \$6,184,000 from \$3,993,000.

At an Extra Ordinary General Meeting, the shareholders approved the splitting of the shares on a two for one basis. This decision was favourably received and will afford a wider degree of





participation. Reflecting this share split of two for one, dividend payments of 5 cents per share paid quarterly were declared by the Directors. For the balance of 1980, the Directors have declared a twenty per cent increase in the Quarterly Dividend payment to six cents per share from five cents per share.

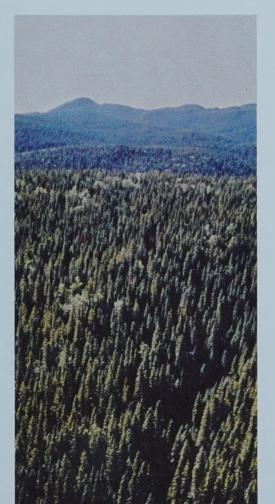
OUTLOOK IN 1980

Notwithstanding the poor outlook in 1980, the company will continue an aggressive capital expenditure program. The planned program calls for the expenditures of \$6.5 million which includes plant, equipment and forest access roads. In addition to the numerous machinery and mobile equipment replacements, the major expenditure will be a modern planermill facility at Nicola Division at a cost of \$2.5 million.

The present high rates of interest in North America, the overall dampened business activity coupled to the uneasiness exhibited in the international scene has and will continue to have a detrimental effect on the marketplace for lumber and plywood. It is already evident that 1980 will be an extremely difficult year. We will be faced with a weak market for our lumber, plywood and veneer. The only positive sign is for the sale of pulp chips. The poor market prospects added to the escalating costs will preclude any repeat of 1979's level of performance. However, the outlook for the balance of the "Eighties" justifies a mood of qualified optimism. All economic

signposts do point to improvements in all levels of business activity.

A year ago, we were awaiting the Regulations arising from the new Forest Act, particularly as they pertained to tenure and intensive forest management. At this time, while progress is being made toward practical implementation, these regulations are not yet in place. We continue to welcome the advancements proposed in the field of intensive forest management. It is this form of vision that is necessary to enhance the management of the forests and to provide an adequate wood supply for years to come.



WORDS OF APPRECIATION

Mr. David L. Balison, President and Chief Executive Officer since 1973, who with his father and his brother formed in 1946 the partnership which was the pioneer beginning of Balco Industries Ltd., retired at the end of September, 1979. His outstanding contribution to the company over many years can best be measured by the growth and success of Balco. He continues to serve the company as a Director.

The Directors were pleased to announce the appointment of Mr. H. O. (Hal) Smith as President, effective October, 1979. Mr. Smith was the former General Manager of the Chetwynd Division of Canfor Limited.

We wish to extend our appreciation and thanks to our employees, contractors and their staff and suppliers. The cooperative efforts of all contributed to the attainment of Balco's best performance in its history.

On behalf of the Directors

H. O. Smith President

March, 1980



Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Balco Industries Ltd. as at November 30, 1979 and the consolidated statements of earnings, earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kamloops, B.C. January 22, 1980 Jamel Goold Slich
Chartered Accountants

Consolidated Statement of Earnings

For the year ended November 30,1979		
	1979	1978 (Restated note 12)
Sales	\$ 81,676,137	\$ 67,848,102
Costs and expenses		
Cost of sales Depreciation, depletion and amortization	62,827,321 3,705,522	52,302,025 3,032,195
Administration and other expenses	2,414,983	1,935,402
Interest - on current debt	97,852	296,904
- on long-term debt	626,802	932,951
	69,672,480	58,499,477
Earnings from operations	12,003,657	9,348,625
Equity in after-tax earnings of 50% owned company	103,830	
Earnings before income taxes and extraordinary item	12,107,487	9,348,625
Provision for income taxes - current	4,483,782	2,761,894
- deferred	657,519	1,178,230
Earnings before extraordinary item	6,966,186	5,408,501
Extraordinary item - note 10	212,000	
Earnings for the year	\$ 6,754,186	\$ 5,408,501
Earnings per share - note 11 Earnings before extraordinary item	\$ 3.37	\$ 2.69
Earnings for the year	\$ 3.27	\$ 2.69

Consolidated Statement of Earnings Reinvested in the Business

For the year ended November 30, 1979	1979	1978 (Restated note 12)
Balance at beginning of year, as restated - note 12	\$ 11,641,586	\$ 6,635,485
Earnings for the year	6,754,186	5,408,501
	18,395,772	12,043,986
Dividends	509,000	402,400
Balance at end of year	\$ 17,886,772	\$ 11,641,586

Consolidated Balance Sheet

For the year ended November 30, 1979

	1979	1978 (Restated note 12)
Current assets	A 252 620	
Cash Accounts receivable - note 3	\$ 253,630 7,501,495	\$ 6,776,519
Inventories - notes 2 and 3	12,277,000	8,710,000
Prepaid expenses	89,139	106,675
	20,121,264	15,593,194
Less current liabilities		
Bank indebtedness	44.070.000	430,060
Accounts payable	11,278,339	7,599,414
Income taxes payable Dividends payable	2,526,370 103,600	2,239,815
Long-term debt instalments due within one year	28,856	1,331,112
	13,937,165	11,600,401
Working capital	6,184,099	3,992,793
Invested capital		
Timber deposits and private timber	421,234	359,850
Investments in 50% owned companies - note 4	1,579,160	04.044.400
Property, plant and equipment - note 5	22,285,258	21,044,139
Deferred charges and other assets - note 8	261,304	136,996
	24,546,956	21,540,985
Less:		
Long-term liabilities - notes, agreements	6,563,966	8,576,392
and mortgages payable - note 6 Deferred income taxes	4,510,317	4,025,800
Deterred meetine taxes		
	11,074,283	12,602,192
Net invested capital	13,472,673	8,938,793
Shareholders' equity	\$ 19,656,772	\$ 12,931,586
Represented by: Common shares without par value - note 9 Authorized 4,000,000		
Issued and fully paid 2,072,000	\$ 1,770,000	\$ 1,290,000
Earnings reinvested in the business	17,886,772	11,641,586
Shareholders' equity	\$ 19,656,772	\$ 12,931,586

Approved on behalf of the board

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Director

Consolidated Statement of Changes in Financial Position

For the year ended November 30, 1979

Source of working capital	1979	1978 (Restated note 12)
Earnings for the year before extraordinary item	\$ 6,966,186	\$ 5,408,501
Items not involving working capital Depreciation, depletion and amortization Deferred taxes Equity in earnings of 50% owned company	3,705,522 657,519 (103,830)	3,032,195 1,238,230
Net proceeds from disposal of assets Assumption of long-term debt Proceeds from issue of common shares Dividends from 50% owned company	11,225,397 316,578 392,000 480,000 14,670	9,678,926 189,090 392,000
	12,428,645	10,260,016
Application of working capital Investment in plant and equipment Investment in forest access roads Payments on long-term debt Payment of dividends Purchase of private timber Investment in 50% owned companies Increase in deferred charges Other applications of funds	5,187,779 438,505 2,404,426 509,000 82,500 1,490,000 124,308 821	3,492,192 587,003 2,509,779 402,400
	10,237,339	7,005,272
Increase in working capital	2,191,306	3,254,744
Working capital at beginning of year	3,992,793	738,049
Working capital at end of year	\$ 6,184,099	\$ 3,992,793

Notes to Consolidated Financial Statements

November 30,1979

1. Summary of Significant Accounting Policies

a) Principles of Consolidation

On November 29, 1979 Balco Industries Ltd. and its wholly owned subsidiaries, Fadear Creek Lumber Co. Ltd., Nicola Valley Sawmills Ltd. and Nicola Timber Limited were amalgamated, retaining the name Balco Industries Ltd.

The consolidated financial statements include the accounts of Balco Industries Ltd., and its wholly owned subsidiary Waymark Services Ltd. for the year ended November 30, 1979 and the operations of Fadear Creek Lumber Co. Ltd., Nicola Valley Sawmills Ltd. and Nicola Timber Limited for the period ended November 28, 1979

b) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost, other than for supplies, is determined by a weighted average cost method.

c) Property, Plant and Equipment

Property, plant and equipment includes cost of major replacements and betterments. Maintenance, repairs and minor replacements are charged against income as incurred.

d) Depreciation, Depletion and Amortization

Depreciation of plant and equipment is provided on a straight-line basis at rates varying from 4% to 20%. The rate for each class of property is based on estimated economic life.

Depletion of timber cutting rights is provided on the basis of timber barvested

Logging roads are amortized as timber is harvested at rates determined with reference to volumes of timber estimated to be removed over such facilities.

Excess of cost over assigned value of net assets of businesses purchased is amortized on a straight-line basis over twenty years.

e) Deferred Income Taxes

Deferred income taxes are provided to recognize the effect of timing differences between accounting and taxable income.

f) Income Taxes

Investment tax credits on qualified property purchased are used to reduce current income taxes payable in the year of realization. As a result current income taxes have been reduced by \$229,621 (1978 - \$269,997).

g) Investments

Investments in 50% owned companies have been accounted for following the equity basis of accounting.

2. Inventories

	1979	1978
Logs	\$ 6,847,000	\$4,283,000
Lumber	3,576,000	3,276,000
Veneer	294,000	193,000
Plywood	781,000	226,000
Fuel, oil, parts and supplies	779,000	732,000
	\$12,277,000	\$8,710,000

3. Bank indebtedness

The company has granted its bank a general assignment of accounts receivable, hypothecation of inventories and a demand debenture covering all assets of the company to secure any indebtedness which may arise.

4. Investments in 50% owned companies

Shares of Interior Composted Soils Ltd., at cost Shares of Gilbert Smith Forest Products Ltd. at cost Equity in after-tax earnings	\$1,480,000 103,830	\$ 10,000
Less dividend	1,583,830 14,670	1,569,160
Total Investments		\$1,579,106

5. Property, Plant and Equipment

	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land Plant and equipment Roads	\$ 1,680,493 33,948,645 3,171,958	\$13,909,908 2,605,930	\$ 1,680,493 20,038,737 566,028
Totals	\$38,801,096	\$16,515,838	\$22,285,258

6. Long-term liabilities

		Principal	
Agreement Payable, unsecured, payable in monthly instalments of \$1,500 with interest at 9%	C	Principal Payments Due Within One Year	Total
per annum Promissory Note plus accrued interest, payable in annual instalments of \$800,000 starting June 28, 1981, interest accrued at 7% per annum payable June 28, 1988 First Mortgage on service centre payable in monthly instalments of \$1,232 including interest at 8½% per annum, maturing in	\$	18,000	\$ 31,500
November, 1980		10,856	10,856
	\$	28,856	6,592,822
Principal payments due within one year			28,856
			\$6,563,966

The annual maturities of long-term debt for each of the next five years are as follows:

).	
1980	\$ 28,856
1981	\$813,500
1982	\$800,000
1983	\$800,000
1984	\$800,000
	,,

7. Pension costs

As a result of amendments to the company's pension plan to improve current service pensions, an amount of \$317,500 has been accrued and charged to earnings in 1979.

8. Statutory information

Remuneration to directors and senior officers (as defined by the B.C. Companies Act) of the company in the current fiscal period was \$284,973 (1978 - \$245,181) including \$92,041 to directors, of which \$24,750 was directors fees.

Other assets include a loan to an officer of \$36,160.

9. Share capital

By special resolution of the shareholders passed on September 12, 1979, the company's authorized capital was increased from 2,000,000 common shares to 4,000,000 common shares, all without par value and the issued shares were split two for one.

On September 19, 1979 the company issued 60,000 common shares at \$8 as part of the consideration for 50% interest in Gilbert Smith Forest Products Ltd.

10. Subsequent events

Subsequent to November 30, 1979 the company permanently closed the plywood mill at Merritt, B.C. These discontinued facilities have been valued at estimated net realizable value which has resulted in an extraordinary loss after tax of \$212,000 which has been provided for in these statements.

11. Earnings per share

Earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years after giving retroactive effect to the stock split (2:1) on September 12, 1979.

12. Prior period adjustment

The comparative figures for 1978 have been restated with respect to the reduction of prior years income taxes resulting from amendments to the British Columbia Logging Tax Act during 1979 with retroactive effect to 1978.

13. Acquisitions

During the year the company subscribed for 50% of the shares of Interior Composted Soils Ltd., a newly incorporated company, for \$10,000. The company also acquired, effective January 1, 1979, a 50% interest in Gilbert Smith Forest Products Ltd. and has determined the excess of cost over assigned value of net assets purchased as follows:

Cost Cash 60,000 Common shares @ \$8		\$1,000,000 480,000
Net assets acquired Net assets at book value Adjustment to reflect assigned value of tangible assets	\$539,214 490,754	1,480,000
Excess of cost over assigned value of net assets, to be amortized over 20 years		\$ 450,032

14. Commitments

The company has a commitment to sell \$1,500,000 U.S. dollars per month for the next seven months at rates ranging from \$114.04 to \$117.81.



DIRECTORS OF THE COMPANY

H. O. Smith†

President and Chief Executive Officer, Balco Industries Ltd., Kamloops, B.C.

D. L. Balison,

Retired, Kamloops, B.C.

P. J. G. Bentley,

President and Chief Executive Officer, Canadian Forest Products Ltd., Vancouver, B.C.

J. G. Chaston,*

Chairman,

Pemberton Securities Ltd., Vancouver, B.C.

R. L. Cliff,*

Chairman,

Inland Natural Gas Co. Ltd., Vancouver, B.C.

J. S. Farrell,

Senior Vice-President, Versatile Cornat Corporation, Vancouver, B.C.

J. R. Longstaffe,*†

Executive Vice-President, Canadian Forest Products, Vancouver, B.C.

J. A. Robinson,†

Group Vice-President, Wood Products Manufacturing Canadian Forest Products Ltd., Vancouver, B.C.

W. M. Robson,

Group Vice-President, Building Materials Marketing Canadian Forest Products Ltd., Vancouver, B.C.

†Member of Executive Committee

*Member of Audit Committee

OFFICERS OF THE COMPANY

J. R. Longstaffe,

Chairman, Vancouver, B.C

H. O. Smith

President and Chief Executive Officer, Kamloops, B.C.

T. G. Jeanes,

Vice-President, Woodlands, Kamloops, B.C.

J. Miyazawa

Vice-President, Administration, Kamloops, B.C.

J. Y. Ohana

Vice-President, Finance & Controller Kamloops, B.C.

R. F. Weinman,

Secretary, Vancouver, B.C.

BUSINESS LOCATIONS

Company Offices:

R.R. No. 3, Kamloops, B.C. V2C 5K1

Auditors:

Jarrett, Goold & Elliott, Chartered Accountants, Kamloops, B.C.

Solicitors:

Rogers, Hunter & Company, Kamloops, B.C.

Bankers:

Canadian Imperial Bank of Commerce, Kamloops, B.C.

Transfer Agent and Registrar:

Yorkshire Trust Company, Vancouver, B.C.

Wholly-Owned Subsidiaries:

Waymark Services Ltd. Kamloops, B.C.

Annual General Meeting:

Thursday, April 17, 1980 at 11:00 a.m. Hotel Vancouver, Vancouver, B.C.



